

THE CRISIS OF

of small cash margins for speculation from persons without financial responsibility ; and the absence of any central banking control over the discount 'rate or the movement of gold.

The defects of the American currency system appear at their worst in periods of panic. The inelasticity of the bank-note currency, coupled with the provisions of law governing the reserve system, cause a strain against which neither the law nor the actual workings of the system afford any safeguard. From 1897 to 1907, a new element of weakness was injected into the situation by the great development of trust companies and State banks, without any proper correlation to the national banking system. These State institutions were not only not required to keep adequate reserves, but even the reserves required were permitted to be kept in bank-notes. Thus their deposit and credit operations were capable of expanding to enormous proportions without any definite relation to gold. And such an expansion actually occurred. Within seven years, from 1900 to 1907, total liabilities of State banking institutions and trust companies expanded by more than five thousand millions of dollars, while cash reserves expanded by only about \$71,000,000, and national bank-note issues expanded by about \$440,000,000.¹ As these bank-notes are secured by evidences of the public debt and not to any appreciable extent by gold reserves, it becomes apparent how one form of credit was built upon another, until the whole fabric became a house of cards which a zephyr might topple in ruins.

And to this fragile nature of the structure was added the fact that there was no refuge to which to look in time of

¹ *Vide* article by the present author on " The Lessons of the Panic," in *North American Review*, February, 1908, CLXXXVII, 180. The figures of State banking expansion were as follows :

GROWTH OF STATE BANKING.

	1900.	1907.
Number of institutions		
9>5*9		iSjS/
Total resources.....	\$5,841,658,820	
.....	\$11,168,514,516-	
Cash reserves.....	\$220,667,109	\$391,847,497